

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>City of Dearborn Heights, Michigan</u>	County <u>Wayne</u>
Audit Date <u>June 30, 2004</u>	Opinion Date <u>October 13, 2004</u>	Date Accountant Report Submitted To State: <u>December 9, 2004</u>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address <u>27400 Northwestern Highway</u>	City <u>Southfield</u>	State <u>MI</u>	ZIP <u>48034</u>
Accountant Signature 			

City of Dearborn Heights, Michigan

Financial Report with Supplemental Information June 30, 2004

City of Dearborn Heights, Michigan

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City of Dearborn Heights, Michigan

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Independent Auditor's Report

To the City Council
City of Dearborn Heights, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Dearborn Heights, Michigan (the "City") as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Dearborn Heights, Michigan as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, the pension system funding progress schedule, and budgetary comparison schedules (identified in the table of contents) are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

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To the City Council
City of Dearborn Heights, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Dearborn Heights, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2004 on our consideration of the City of Dearborn Heights, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Plante & Moran, PLLC

October 13, 2004

City of Dearborn Heights, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the City of Dearborn Heights, Michigan's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with the City's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2004:

- Property taxes are the City's single, largest source of revenues. The City's gross tax base (taxable value) for the fiscal year ended June 30, 2004 was approximately \$1,352,000,000, which represents an increase of \$52,000,000 over the prior year tax base. This represents an increase of approximately 4 percent.
- State-shared revenue, the second largest revenue source of the Corporate Fund, was reduced by the State of Michigan by approximately \$705,000 this year. This represents an approximate 10 percent reduction from the prior year.
- Through an early-out program offered by the City in fall 2003 and the budgeting process, the City eliminated nine employees from the Corporate Fund. To offset the reduction of state-shared revenues, the City had to keep positions unfilled. In addition, the City eliminated youth sport contributions, closed the senior centers several days a week, and reduced the recreation budgets only to programs that received revenues that covered their related expenses. By eliminating and reducing costs, the City was able to increase its fund balance by approximately \$197,000.
- The City also went through a transition of a new mayor and city clerk due to the retirements of the previous persons holding office. The mayor and department heads worked closely together to reduce expenditures for each department to help alleviate the current financial issues the City faces.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

City of Dearborn Heights, Michigan

Management's Discussion and Analysis (Continued)

The City as a Whole

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year:

TABLE I

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Assets						
Current assets	\$ 20,723,241	\$ 12,047,474	\$ 8,242,314	\$ 9,853,708	\$ 28,965,555	\$ 21,901,182
Noncurrent assets	50,221,308	44,036,067	94,091,851	94,881,177	144,313,159	138,917,244
Total assets	70,944,549	56,083,541	102,334,165	104,734,885	173,278,714	160,818,426
Liabilities						
Current liabilities	6,648,791	5,427,842	5,442,524	6,625,080	12,091,315	12,052,922
Long-term liabilities	20,539,782	9,251,362	38,923,470	41,827,559	59,463,252	51,078,921
Total liabilities	27,188,573	14,679,204	44,365,994	48,452,639	71,554,567	63,131,843
Net Assets						
Invested in capital assets -						
Net of related debt	45,193,410	39,226,909	46,400,061	44,371,090	91,593,471	83,597,999
Restricted	4,687,221	6,258,566	7,729,957	8,245,851	12,417,178	14,504,417
Unrestricted (deficit)	(6,124,655)	(4,081,138)	3,838,153	3,665,305	(2,286,502)	(415,833)
Total net assets	<u>\$ 43,755,976</u>	<u>\$ 41,404,337</u>	<u>\$ 57,968,171</u>	<u>\$ 56,282,246</u>	<u>\$ 101,724,147</u>	<u>\$ 97,686,583</u>

The City's combined net assets increase 4 percent from a year ago - increasing from \$97.7 million to \$101.7 million.

Unrestricted net assets of the governmental activities - the part of net assets that can be used to finance day-to-day operations - decreased by approximately \$2 million. This decrease was primarily caused by a \$2.2 million decrease in the equity in joint venture investments.

The increase in total net assets of the business-type activities of \$1.7 million relates mainly to a refund of assets previously held at the county, which have been set aside to fund future mandated capital projects.

City of Dearborn Heights, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the current year, and as compared to the prior year:

TABLE 2

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Revenue						
Program revenue:						
Charges for services	\$ 5,679,580	\$ 5,404,346	\$ 11,429,985	\$ 12,413,289	\$ 17,109,565	\$ 17,817,635
Operating grants and contributions	5,136,968	5,835,507	-	-	5,136,968	5,835,507
Capital grants and contributions	4,909,012	2,206,515	1,142,182	660,816	6,051,194	2,867,331
General revenue:						
Property taxes	19,115,108	17,759,817	4,367,897	4,601,833	23,483,005	22,361,650
State-shared revenue	6,052,556	6,757,647	-	-	6,052,556	6,757,647
Unrestricted investment earnings	131,837	252,884	685,537	177,034	817,374	429,918
Franchise fees	611,190	581,661	-	-	611,190	581,661
Loss on disposal of assets	-	(82,673)	-	-	-	(82,673)
Total revenue	41,636,251	38,715,704	17,625,601	17,852,972	59,261,852	56,568,676
Program Expenses						
General government	7,072,239	6,921,105	-	-	7,072,239	6,921,105
Public safety	18,519,529	17,969,054	-	-	18,519,529	17,969,054
Public works	11,361,788	8,917,813	-	-	11,361,788	8,917,813
Community and economic development	215,964	438,111	-	-	215,964	438,111
Recreation and culture	1,566,718	2,212,969	-	-	1,566,718	2,212,969
Interest on long-term debt	548,374	217,516	-	-	548,374	217,516
Water and sewer	-	-	15,939,676	15,164,152	15,939,676	15,164,152
Total program expenses	39,284,612	36,676,568	15,939,676	15,164,152	55,224,288	51,840,720
Change in Net Assets	\$ 2,351,639	\$ 2,039,136	\$ 1,685,925	\$ 2,688,820	\$ 4,037,564	\$ 4,727,956

Governmental Activities

Reviewing the above chart, it can be noted that the overall revenues are increased approximately \$2.9 million, while the increase in expenditures was only \$2.6 million. The \$2.6 million increase in expenditures included a loss of approximately \$700,000 in state-shared revenues and \$120,000 less than anticipated in investment earnings compared to the prior year, but these were offset by increases in grants, property taxes, and charges for services.

The increase in expenditures related primarily to liability insurance and benefits. The mayor and department heads worked together to limit increases in other expenditures as much as possible.

Business-type Activities

The City's business-type activities consist of the Water and Sewer Fund. The City maintains transmission lines that allow customers to receive water from the City of Detroit Water System and deliver it to our residents. Sewage treatment is provided through Wayne County's Rouge Valley and Downriver Sewage Disposal Systems.

Per review of the above chart, it is evident that the total revenues increased slightly and the total expenditures increased at a slightly higher rate for the 2004 fiscal year over the 2003 fiscal year. This is due mostly to the closing and bankruptcy of the City's largest water consumer, the Central Wayne County Sanitation Authority.

City of Dearborn Heights, Michigan

Management's Discussion and Analysis (Continued)

The City of Dearborn Heights' Funds

The analysis of the City's major funds follows the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities. The City's major funds for 2004 include the Corporate Fund, Major Streets Fund, Local Streets Fund, and the Capital Projects Fund.

Corporate Fund Budgetary Highlights

The Corporate Fund accounts for all police, fire, public works, planning and zoning, and administrative functions of the City. The budget is essentially a "maintenance" budget, which means it usually increases modestly from year to year. The budget is monitored closely and amended when needed.

Capital Asset and Debt Administration

At the end of fiscal year 2004, the City (excluding component units) had approximately \$138 million (net of depreciation) invested in a broad range of capital assets, including buildings, police and fire equipment, infrastructure, and water and sewer lines. The debt related to the acquisition and construction of these assets at June 30, 2004 was approximately \$55 million.

Economic Factors and Next Year's Budgets and Rates

The general operating millage cannot be increased next year since the City is at its maximum millage rate per the Headlee amendment. State-shared revenues have been budgeted by the State at an amount that is approximately the same as the 2004 rate. Some expenditures are assumed to increase at a rate above the rate of inflation, but the City has been able to negotiate with most employee unions, resulting in no increase in salaries for at least one year of the union contracts. However, by limiting expenditures, including capital outlay, revising how certain services are delivered, and eliminating additional personnel through attrition, the City has been able to balance its budget for fiscal year 2005.

Considering the City's decreasing debt load, programmed system improvements, and controlled water loss, the City has passed a resolution to increase water and sewer rates by 6 percent effective December 1, 2004. Even with the loss of the major water consumer, the Central Wayne County Sanitation Authority, it is anticipated that the above increase will cover the operations of the water and sewer system.

Contacting the City of Dearborn Heights, Michigan's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the City's finance office at 6045 Fenton, Dearborn Heights, Michigan 48127, or via the City's Website at compoff@dhol.org.

City of Dearborn Heights, Michigan

Statement of Net Assets June 30, 2004

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents (Note 3)	\$ 16,954,164	\$ 4,732,138	\$ 21,686,302	\$ 4,968,781
Receivables - Net:				
Taxes	1,750,959	-	1,750,959	-
Customers	-	3,235,961	3,235,961	-
Other	174,292	-	174,292	-
Internal balances	(78,125)	78,125	-	-
Due from other governmental units	1,917,953	-	1,917,953	45,925
Due from component unit	3,998	-	3,998	-
Due from primary government	-	-	-	1,239,067
Inventories, prepaids, and other assets	-	196,090	196,090	20,524
Restricted assets (Note 8)	-	5,911,819	5,911,819	-
Capital assets not being depreciated (Note 5)	10,625,894	573,968	11,199,862	2,767,640
Capital assets being depreciated (Note 5)	39,595,414	87,606,064	127,201,478	23,218,972
Total assets	70,944,549	102,334,165	173,278,714	32,260,909
Liabilities				
Accounts payable	3,248,570	1,715,697	4,964,267	250,924
Accrued and other liabilities	756,902	457,993	1,214,895	354,021
Due to other governmental units	120,493	-	120,493	-
Due to component unit	1,239,067	-	1,239,067	-
Due to primary government	-	-	-	3,998
Deposits	3,771	152,798	156,569	-
Deferred revenue (Note 4)	107,668	-	107,668	-
Workers' compensation liability (Note 9)	230,000	-	230,000	-
General insurance liability (Note 9):				
Due within one year	382,000	-	382,000	-
Due in more than one year	608,047	-	608,047	-
Compensated absences:				
Due within one year	420,320	143,190	563,510	-
Due in more than one year	5,686,785	116,345	5,803,130	-
Long-term debt (Note 7):				
Due within one year	370,000	2,972,846	3,342,846	940,000
Due in more than one year	12,445,000	38,807,125	51,252,125	25,475,000
Joint venture long-term liabilities (Note 1)	1,569,950	-	1,569,950	-
Total liabilities	27,188,573	44,365,994	71,554,567	27,023,943
Net Assets				
Invested in capital assets - Net of related debt	45,193,410	46,400,061	91,593,471	(428,388)
Restricted:				
Streets and highways	3,365,760	-	3,365,760	-
Debt service, pension, and other	536,279	5,911,819	6,448,098	-
Capital projects	-	1,818,138	1,818,138	-
Library expenses	578,125	-	578,125	-
Cable improvements	207,057	-	207,057	-
Unrestricted	(6,124,655)	3,838,153	(2,286,502)	5,665,354
Total net assets	\$ 43,755,976	\$ 57,968,171	\$ 101,724,147	\$ 5,236,966

City of Dearborn Heights, Michigan

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 7,072,239	\$ 631,289	\$ 290,928	\$ -
Public safety	18,519,529	3,234,535	131,175	564,794
Public works	11,361,788	1,390,693	4,345,846	3,262,075
Community and economic development	215,964	-	153,462	-
Recreation and culture	1,566,718	423,063	215,557	1,082,143
Interest on long-term debt	548,374	-	-	-
Total governmental activities	39,284,612	5,679,580	5,136,968	4,909,012
Business-type activities - Water and Sewer	15,939,676	11,429,985	-	1,142,182
Total primary government	\$ 55,224,288	\$ 17,109,565	\$ 5,136,968	\$ 6,051,194
Component units:				
Tax Increment Finance Authority	\$ 4,506,523	\$ -	\$ 273,141	\$ -
Economic Development Corporation	-	-	-	-
Brownfield Redevelopment Authority	13,912	-	-	-
Total component units	\$ 4,520,435	\$ -	\$ 273,141	\$ -
General revenues:				
General property taxes				
Water and sewer millage property taxes				
State-shared revenues				
Unrestricted investment earnings				
Franchise fees				
Total general revenues				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

Statement of Activities Year Ended June 30, 2004

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (6,150,022)	\$ -	\$ (6,150,022)	\$ -
(14,589,025)	-	(14,589,025)	-
(2,363,174)	-	(2,363,174)	-
(62,502)	-	(62,502)	-
154,045	-	154,045	-
(548,374)	-	(548,374)	-
(23,559,052)	-	(23,559,052)	-
-	(3,367,509)	(3,367,509)	-
(23,559,052)	(3,367,509)	(26,926,561)	-
-	-	-	(4,233,382)
-	-	-	-
-	-	-	(13,912)
-	-	-	(4,247,294)
19,115,108	-	19,115,108	3,120,016
-	4,367,897	4,367,897	-
6,052,556	-	6,052,556	-
131,837	685,537	817,374	108,487
611,190	-	611,190	-
25,910,691	5,053,434	30,964,125	3,228,503
2,351,639	1,685,925	4,037,564	(1,018,791)
41,404,337	56,282,246	97,686,583	6,255,757
\$ 43,755,976	\$ 57,968,171	\$ 101,724,147	\$ 5,236,966

City of Dearborn Heights, Michigan

Governmental Funds Balance Sheet June 30, 2004

	Corporate Fund	Major Streets Fund	Local Streets Fund	Capital Projects Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents (Note 3)	\$ 3,428,504	\$ 1,230,031	\$ 2,077,718	\$ 9,312,304	\$ 905,607	\$ 16,954,164
Receivables:						
Taxes - Net of allowance for doubtful accounts of \$103,863	1,750,959	-	-	-	-	1,750,959
Other	174,292	-	-	-	-	174,292
Due from other governmental units	1,304,214	413,890	168,530	-	31,319	1,917,953
Due from other funds	539,616	-	-	-	318,634	858,250
Due from component unit	3,998	-	-	-	-	3,998
Total assets	\$ 7,201,583	\$ 1,643,921	\$ 2,246,248	\$ 9,312,304	\$ 1,255,560	\$ 21,659,616
Liabilities						
Accounts payable	\$ 1,300,897	\$ 197,608	\$ -	\$ 1,545,431	\$ 204,634	\$ 3,248,570
Accrued and other liabilities	710,880	-	-	-	-	710,880
Amounts due to retirees	420,320	-	-	-	-	420,320
Due to other governmental units	120,493	-	-	-	-	120,493
Due to other funds	566,922	229,750	97,051	-	42,652	936,375
Due to component unit	1,239,067	-	-	-	-	1,239,067
Deposits	-	-	-	-	3,771	3,771
Deferred revenue (Note 4)	260,276	-	-	-	107,668	367,944
Total liabilities	4,618,855	427,358	97,051	1,545,431	358,725	7,047,420
Fund Balances						
Reserved for (Note 12):						
Capital projects	-	-	-	7,766,873	-	7,766,873
Debt service, pension, and other	536,279	-	-	-	-	536,279
Cable improvements	207,057	-	-	-	-	207,057
Unreserved, reported in (Note 12):						
General Fund	1,839,392	-	-	-	-	1,839,392
Special Revenue Funds	-	1,216,563	2,149,197	-	896,835	4,262,595
Total fund balances	2,582,728	1,216,563	2,149,197	7,766,873	896,835	14,612,196
Total liabilities and fund balances	\$ 7,201,583	\$ 1,643,921	\$ 2,246,248	\$ 9,312,304	\$ 1,255,560	\$ 21,659,616

City of Dearborn Heights, Michigan

Governmental Funds Reconciliation of the Balance Sheet to the Statement of Net Assets June 30, 2004

Fund Balances - Total Governmental Funds \$ 14,612,196

Amounts reported for governmental activities in the statement of net assets
are different because:

Capital assets used in governmental activities are not financial resources and are
not reported in the funds 50,221,308

Special assessment receivables are expected to be collected over several years and are
not available to pay for current year expenditures 260,276

Loss in investment in joint ventures is included as part of governmental activities (1,569,950)

Long-term debt not due and payable in the current period and not reported
in the funds (12,815,000)

Interest payable is not accrued in the funds (46,022)

Compensated absences are not included as a liability of the funds (5,686,785)

General insurance liability is not included as a liability of the funds (990,047)

Workers' compensation liability is not included as a liability of the funds (230,000)

Net Assets of Governmental Activities **\$ 43,755,976**

City of Dearborn Heights, Michigan

Governmental Funds

Statement of Revenue, Expenditures, and Changes in Fund Balances

Year Ended June 30, 2004

	Corporate Fund	Major Streets Fund	Local Streets Fund	Capital Projects Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenues						
General property taxes	\$ 17,829,976	\$ -	\$ -	\$ -	\$ 1,285,132	\$ 19,115,108
Licenses and permits	1,125,522	-	-	-	-	1,125,522
Federal grants	-	1,820,176	-	-	1,759,639	3,579,815
State-shared revenues, grants, and other state aid	6,214,637	2,792,196	991,638	-	339,517	10,337,988
Local revenue	-	142,705	570,821	700,271	-	1,413,797
Charges for services	1,466,117	-	-	-	-	1,466,117
Fines and forfeitures	2,200,211	-	-	-	239,600	2,439,811
Interest income	109,560	10,667	19,277	72,550	29,347	241,401
Drug enforcement revenue	-	-	-	-	90,206	90,206
Other	1,467,919	-	3,534	-	-	1,471,453
Total revenues	30,413,942	4,765,744	1,585,270	772,821	3,743,441	41,281,218
Expenditures						
Current:						
General government	7,025,909	-	-	-	-	7,025,909
Public safety	18,098,913	-	-	-	366,880	18,465,793
Public works	3,985,652	4,527,689	1,223,557	-	-	9,736,898
Community and economic development	75,824	-	-	-	1,937,595	2,013,419
Recreation and culture	796,822	-	-	-	489,269	1,286,091
Capital outlay	-	-	-	4,604,027	-	4,604,027
Debt service	-	-	-	309,460	233,336	542,796
Total expenditures	29,983,120	4,527,689	1,223,557	4,913,487	3,027,080	43,674,933
Excess of Revenues Over (Under)						
Expenditures	430,822	238,055	361,713	(4,140,666)	716,361	(2,393,715)
Other Financing Sources (Uses)						
Proceeds from issuance of debt	-	-	-	9,000,000	-	9,000,000
Transfers in	-	-	-	2,831,023	233,336	3,064,359
Transfers out	(233,336)	-	-	-	(2,831,023)	(3,064,359)
Total other financing sources (uses)	(233,336)	-	-	11,831,023	(2,597,687)	9,000,000
Net Changes in Fund Balances	197,486	238,055	361,713	7,690,357	(1,881,326)	6,606,285
Fund Balances - Beginning of year	2,385,242	978,508	1,787,484	76,516	2,778,161	8,005,911
Fund Balances - End of year	\$ 2,582,728	\$ 1,216,563	\$ 2,149,197	\$ 7,766,873	\$ 896,835	\$ 14,612,196

City of Dearborn Heights, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2004

Net Change in Fund Balances - Total Governmental Funds \$ 6,606,285

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation 9,390,031

Governmental funds depreciation expense on fixed assets is reported as an expense on the statement of activities and is not reported as an expense for fund purposes (2,566,975)

Special assessment revenue is not recorded in the funds until received; these revenues are recorded as revenue when the project is substantially completed in the governmental-wide statements 22,472

Net loss from the joint venture is not recorded in the governmental funds, but is recorded in the statement of activities (2,207,765)

Bond proceeds is a revenue item in the governmental funds, but not in the statement of activities (where it increases long-term debt) (9,000,000)

Repayments of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 356,343

Governmental funds report interest expense based on amounts paid in cash during the fiscal year; on the statement of activities, interest expense is expensed based upon accrued expense 4,680

Increase in estimated general liability claims is recorded in the statement of activities (116,983)

Decrease in estimated workers' compensation claims is recorded in the statement of activities 43,730

Increase in accumulated employee sick and vacation pay is recorded when earned in the statement of activities (180,179)

Change in Net Assets of Governmental Activities \$ 2,351,639

City of Dearborn Heights, Michigan

Proprietary Fund Statement of Net Assets June 30, 2004

	Enterprise - Water and Sewer Fund
Assets	
Current assets:	
Cash and cash equivalents (Note 3)	\$ 4,732,138
Customer receivables	3,235,961
Due from other funds	248,288
Inventories, prepaids, and other assets	<u>196,090</u>
Total current assets	8,412,477
Noncurrent assets:	
Restricted assets (Note 8)	5,911,819
Capital assets (Note 5)	<u>88,180,032</u>
Total noncurrent assets	<u>94,091,851</u>
Total assets	102,504,328
Liabilities	
Current liabilities:	
Accounts payable	1,715,697
Accrued and other liabilities	457,993
Due to other funds	170,163
Deposits	152,798
Current portion of compensated absences	143,190
Current portion of long-term debt (Note 7)	<u>2,972,846</u>
Total current liabilities	5,612,687
Noncurrent liabilities:	
Provision for compensated absences - Net of current portion	116,345
Long-term debt - Net of current portion (Note 7)	<u>38,807,125</u>
Total noncurrent liabilities	<u>38,923,470</u>
Total liabilities	<u>44,536,157</u>
Net Assets	
Investment in capital assets - Net of related debt	46,400,061
Restricted for debt payments	5,911,819
Restricted for capital projects	1,818,138
Unrestricted	<u>3,838,153</u>
Total net assets	<u>\$ 57,968,171</u>

City of Dearborn Heights, Michigan

Proprietary Fund Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2004

	Enterprise - Water and Sewer Fund
Operating Revenues	
Water and sewer services	\$ 10,964,682
Other operating revenue	<u>465,303</u>
Total operating revenues	11,429,985
Operating Expenses	
Water and sewage disposal charges	6,441,453
Transmission and distribution expense	1,595,464
Administrative and general expense	2,615,977
Depreciation	2,407,700
Other operating expenses	<u>1,271,277</u>
Total operating expenses	<u>14,331,871</u>
Operating Loss	(2,901,886)
Nonoperating Revenue (Expense)	
Interest earned on investments	685,537
Interest expense	(1,607,805)
Property taxes	<u>4,367,897</u>
Income - Before contributions	543,743
Capital Contributions	<u>1,142,182</u>
Change in Net Assets	1,685,925
Net Assets - Beginning of year	<u>56,282,246</u>
Net Assets - End of year	<u><u>\$ 57,968,171</u></u>

City of Dearborn Heights, Michigan

Proprietary Fund Statement of Cash Flows Year Ended June 30, 2004

	Enterprise - Water and Sewer
Cash Flows from Operating Activities	
Receipts from customers	\$ 11,806,325
Payments to suppliers	(10,362,948)
Payments to employees	(1,722,669)
Internal activity - Payments to other funds	(149,862)
Other payments	<u>(1,271,277)</u>
Net cash used in operating activities	(1,700,431)
Cash Flows from Capital and Related Financing Activities	
Proceeds from property tax levy (restricted for debt service)	4,367,897
Property taxes turned over to the County	(1,300,532)
Principal and interest paid on long-term debt	(2,371,427)
Purchase of capital assets	(637,503)
Capital contributions	<u>75,642</u>
Net cash provided by capital and related financing activities	134,077
Cash Flows from Investing Activities - Interest received on investments	<u>102,732</u>
Net Decrease in Cash and Cash Equivalents	(1,463,622)
Cash and Cash Equivalents - Beginning of year	<u>6,195,760</u>
Cash and Cash Equivalents - End of year	<u>\$ 4,732,138</u>
Reconciliation of Operating Loss to Net Cash from Operating Activities	
Operating loss	\$ (2,901,886)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation	2,407,700
Changes in assets and liabilities:	
Receivables	291,894
Due from other funds	(248,288)
Other assets	5,740
Accounts payable	(1,537,697)
Accrued liabilities	99,234
Due to other funds	98,426
Deposits	<u>84,446</u>
Net cash used in operating activities	<u>\$ (1,700,431)</u>

Noncash Investing, Capital, and Financing Activities - During the year ended June 30, 2004, the Tax Increment Finance Authority Fund constructed water line improvements with a value of \$629,210 and donated them to the City. Developers constructed water line improvements with a value of \$12,893 and donated them to the City. The City is also amortizing deferred charges on bond refundings, which amounted to \$110,470 in the current year. Wayne County used \$1,969,006 of deposits held on behalf of the City to retire debt. Interest income totaling \$582,805 was earned on funds held at Wayne County.

City of Dearborn Heights, Michigan

Fiduciary Funds Statement of Net Assets June 30, 2004

	Pension and Other Employee Benefits	Agency Fund
Assets		
Cash and cash equivalents (Note 3)	\$ 10,453,316	\$ 200,329
Marketable securities (Note 3):		
U.S. governmental securities	16,302,815	-
Common stock	73,593,134	-
Limited partnerships	982,285	-
Corporate bonds	33,666,493	-
Mutual funds	14,543,879	-
Cash held as collateral for securities lending (Note 3)	11,218,277	-
Other receivables	497,685	-
Total assets	161,257,884	<u>\$ 200,329</u>
Liabilities		
Accounts payable	116,126	\$ -
Accrued and other liabilities	-	154,404
Due to other governmental units	-	45,925
Collateral for securities lending (Note 3)	11,218,277	-
Total liabilities	11,334,403	<u>\$ 200,329</u>
Net Assets - Held in trust for employees' retirement systems		<u><u>\$ 149,923,481</u></u>

City of Dearborn Heights, Michigan

Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2004

	Pension and Other Employee Benefits
Additions	
Investment income:	
Interest and dividends	\$ 4,504,962
Net increase in fair value of investments	14,045,983
Less investment expenses	<u>126,792</u>
Net investment income	18,677,737
Contributions:	
Employer	3,387,121
Employee	<u>421,628</u>
Total contributions	3,808,749
Securities lending income:	
Interest and fees	190,702
Less borrower rebates and bank fees	<u>(146,388)</u>
Net securities lending income	<u>44,314</u>
Total additions	22,530,800
Deductions	
Benefit payments	6,240,411
Fringe benefits	1,302,488
Administrative expenses	<u>628,096</u>
Total deductions	<u>8,170,995</u>
Net Increase	14,359,805
Net Assets Held in Trust for Pension Benefits	
Beginning of year	<u>135,563,676</u>
End of year	<u><u>\$ 149,923,481</u></u>

City of Dearborn Heights, Michigan

Component Units Statement of Net Assets June 30, 2004

	Tax Increment Finance Authority	Economic Development Corporation	Brownfield Redevelopment Authority	Total
Assets				
Cash and cash equivalents (Note 3)	\$ 4,968,781	\$ -	\$ -	\$ 4,968,781
Due from primary government	1,204,789	790	33,488	1,239,067
Due from other governmental units	-	-	45,925	45,925
Prepaid and other assets	20,524	-	-	20,524
Capital assets not being depreciated (Note 5)	2,767,640	-	-	2,767,640
Capital assets being depreciated (Note 5)	<u>23,218,972</u>	<u>-</u>	<u>-</u>	<u>23,218,972</u>
Total assets	32,180,706	790	79,413	32,260,909
Liabilities				
Accounts payable	250,924	-	-	250,924
Accrued liabilities	333,680	-	20,341	354,021
Due to primary government	3,998	-	-	3,998
Long-term debt (Note 7):				
Due within one year	940,000	-	-	940,000
Due in more than one year	<u>25,475,000</u>	<u>-</u>	<u>-</u>	<u>25,475,000</u>
Total liabilities	<u>27,003,602</u>	<u>-</u>	<u>20,341</u>	<u>27,023,943</u>
Net Assets				
Investment in capital assets - Net of related debt	(428,388)	-	-	(428,388)
Unrestricted	<u>5,605,492</u>	<u>790</u>	<u>59,072</u>	<u>5,665,354</u>
Total net assets	<u>\$ 5,177,104</u>	<u>\$ 790</u>	<u>\$ 59,072</u>	<u>\$ 5,236,966</u>

City of Dearborn Heights, Michigan

		Program Revenues	
	Expenses	Charges for Services	Operating Grants/Contributions
Tax Increment Finance Authority			
General government	\$ -	\$ -	\$ -
Public works	1,536,714	-	-
Public safety	815,725	-	273,141
Recreation and culture	706,796	-	-
Community and economic development	69,113	-	-
Interest expense and bond issue costs	1,378,175	-	-
Economic Development Corporation - Public works	-	-	-
Brownfield Redevelopment Authority - Public works	13,912	-	-
Total governmental activities	\$ 4,520,435	\$ -	\$ 273,141

General revenues:

Property taxes
Interest

Total general revenues

Change in Net Assets

Net Assets - Beginning of year

Net Assets - End of year

Component Units
Statement of Activities
Year Ended June 30, 2004

Net (Expense) Revenue and Changes in Net Assets			
Tax Increment Finance Authority	Economic Development Corporation	Brownfield Redevelopment Authority	Total
\$ -	\$ -	\$ -	\$ -
(1,536,714)	-	-	(1,536,714)
(542,584)	-	-	(542,584)
(706,796)	-	-	(706,796)
(69,113)	-	-	(69,113)
(1,378,175)	-	-	(1,378,175)
-	-	-	-
-	-	(13,912)	(13,912)
(4,233,382)	-	(13,912)	(4,247,294)
3,086,528	-	33,488	3,120,016
108,487	-	-	108,487
3,195,015	-	33,488	3,228,503
(1,038,367)	-	19,576	(1,018,791)
6,215,471	790	39,496	6,255,757
\$ 5,177,104	\$ 790	\$ 59,072	\$ 5,236,966

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of Dearborn Heights (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used:

Reporting Entity

The City is governed by an elected seven-member council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

Blended Component Units - The Building Authority is governed by a Board that is appointed by the City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to finance and construct the City's public buildings.

Discretely Presented Component Units - The following component units are reported within the component units column to emphasize that they are legally separate from the City.

- (a) The Tax Increment Finance Authority (TIFA) was formed under Act 450 of the Public Acts of 1980 to develop south Dearborn Heights. A development plan was adopted that is financed by property tax revenue. The Authority's governing body, which consists of 13 individuals, is appointed by the mayor.
- (b) The Economic Development Corporation was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents to the City. The Corporation's governing body, which consists of four individuals, is appointed by the mayor. This entity had no activity in the current year.

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

- (c) The Brownfield Authority was created to identify and assist in the redevelopment of abandoned, underutilized, or contaminated parcels of property located in Dearborn Heights. The Authority's governing body, which consists of 13 individuals, is comprised of the Tax Increment Finance Authority's board members. Currently, the Authority is in the preliminary stages of development.

Jointly Governed Organization - The City is a member of the Central Wayne County Sanitation Authority (the "Sanitation Authority"). The City appoints one member to the joint venture's governing board, which approves the annual budget. The debt of the joint venture is being financed by operations and member millage. During the current year, the Sanitation Authority ceased operations and the partnership under contract to operate the facility has declared bankruptcy. The City contributed approximately \$2,235,000 for sanitation costs passed through the Sanitation Authority, which is reported in the Corporate Fund's expenditures. In addition, the City recorded a long-term liability related to the Sanitation Authority of approximately \$1,570,000 in the government-wide statement of net assets. Complete financial statements for the Sanitation Authority can be obtained from the administrative offices at 4091 S. Inkster Road, Dearborn Heights, MI 48125.

The Sanitation Authority was responsible for approximately 1 percent of the City's water and sewer billings in the current year. The taxable value of the Sanitation Authority is captured in its entirety by the Tax Increment Finance Authority, where it accounts for 20.4 percent of the TIFA's captured taxable value.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. The effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

Note I - Summary of Significant Accounting Policies (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

Revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the fiscal period. Major revenue types for which receivables are recorded on the current accounting period's balance sheet include property taxes and state-shared revenue. All other revenue items are considered to be available only when cash is received by the City.

The City reports the following major governmental funds:

Corporate Fund - The Corporate Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Major Streets Fund - The Major Streets Fund is a Special Revenue Fund that accounts for revenue received from gasoline tax through the State of Michigan under Act 51. Expenditures of this fund include the maintenance of major streets, as well as improvement of roadways and related financing expenditures.

Local Streets Fund - The Local Streets Fund is a Special Revenue Fund that accounts for revenue received from gasoline tax through the State of Michigan under Act 51. Expenditures of this fund include the maintenance of local streets, as well as improvement of roadways and related financing expenditures.

Capital Projects Fund - The Capital Projects Fund accounts for the construction of the Caroline Kennedy and John F. Kennedy libraries.

The City reports the following major proprietary fund:

Water and Sewer Fund - The Water and Sewer Fund is the City's only major proprietary fund. It accounts for the activities of the water distribution system and sewage collection system.

Additionally, the City reports the following fund type:

Pension Trust Funds - The Pension Trust Funds account for the activities of the police and fire employees' retirement system and general government employees, which accumulate resources for pension benefit payments to qualified employees.

Private-sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities.

Note 1 - Summary of Significant Accounting Policies (Continued)

The effect of interfund activity has been eliminated from the government-wide financial statements, except for such activity between the governmental and business-type funds. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for services. Operating expenses for proprietary funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

Property Taxes - Property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

Note 1 - Summary of Significant Accounting Policies (Continued)

The 2003 taxable valuation of the City approximated \$1.353 billion (a portion of which is captured by the TIFA), on which taxes levied consisted of 6.5948 mills for operating purposes, 1.5514 mills for public safety expenditures, 0.7756 mills for solid waste expenditures, 2.4864 mills for Act 345 contributions, 2.3273 mills for sanitation expenditures, 0.0632 mills for the Ecorse Creek debt service, 0.9583 mills for library operations and construction, and 2.5000 mills for CSO debt service. This resulted in approximately \$8,339,000 for operating, \$1,962,000 for public safety expenditures, \$981,000 for solid waste expenditures, \$3,144,000 for Act 345 contributions, \$2,943,000 for sanitation expenditures, \$80,000 for the Ecorse Creek debt service, \$1,285,000 for library operations and construction, and \$3,137,000 for CSO debt service.

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets - Restricted assets consist of deposits at the county being held for the construction and debt service of the City's sewer lines. The restricted assets result mainly from the issuance of debt and net assets have been reserved for restricted assets.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed and a 10 percent salvage value is assumed. Donated capital assets are recorded at estimated fair market value at the date of donation.

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Roads, sidewalks, and street signs	10 to 20 years
Water systems	50 to 75 years
Sewer systems	40 to 50 years
Buildings and building improvements	50 years
Machinery, furniture, equipment, and vehicles	5 to 15 years
Library books	3 years

Compensated Absences (Vacation, Longevity, and Sick Leave) - It is the City's policy to permit employees to accumulate earned but unused sick, vacation pay, and longevity benefits. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the fund financial statements only for employee terminations as of year end.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt, and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Note 1 - Summary of Significant Accounting Policies (Continued)

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted for the Corporate Fund, Community Development Block Grant Fund, and the Major and Local Streets Funds on an activity basis. The State Budget Act requires that budgets are adopted for all Special Revenue Funds. The City does not adopt budgets for all Special Revenue Funds.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America, with the following exceptions:

- Operating transfers have been included in “revenue” and “expenditure” categories, rather than “other financing sources (uses).”
- Reimbursements from other funds have been included in revenue, rather than a reduction of expenditures.

Any expenditures that exceed the budget must be approved by City Council through a budget amendment. The Council approves all budget amendments. During the current year, there were no significant budget amendments. All annual appropriations lapse at fiscal year end.

The budget process begins in December and January with the comptroller’s office budgeting the personnel and fringe benefits expense for all City employees and providing each department with a budget form to be completed by the department head. These forms are due back to the comptroller’s office by late January. The comptroller’s office then analyzes these amounts and calculates the total budget.

In February, the mayor’s office schedules meetings with all major departments to review their proposed budget and the budget is adjusted accordingly.

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2004

Note 2 - Stewardship, Compliance, and Accountability (Continued)

In late February and early March, the comptroller's office reviews the budget to verify that it balances. At this time, the mayor's office reschedules all major departments to do a final review of the departmental budgets. After the final review, the comptroller's office organizes the final proposed budget to deliver to City Council. The City Charter requires that the City Council receive the proposed budget by April 1.

During April and May, the City Council reviews the budget with the department heads. City Council meetings, held in April and May, provide all interested citizens an open forum where their concerns can be heard. Upon review, and a subsequent public hearing, the City Council adopts the proposed budget by resolution.

The budget must be adopted by the City Council by the first Monday in June. After the budget has been adopted, all budget amendments must be approved by the City Council. In the current year, the City adopted the budgets for the Major and Local Streets Funds (Special Revenue Funds) subsequent to June 30, 2003. This is a violation of the State Budget Act.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the following expenditures were in excess of the amounts budgeted:

	Budget	Actual
General Fund - Sanitation	\$ 3,882,200	\$ 3,912,581
General Fund - Cable TV Commission	57,441	66,611
Major Streets Fund - Traffic services	35,000	43,528
Major Streets Fund - Street and bridge construction	1,272,500	2,903,141
Local Streets Fund - Winter maintenance	10,000	20,327

The unfavorable variances in the General Fund relate to a special cleanup for flood damage during May 2004 and the purchase of cable equipment that were not budgeted for. The unfavorable variances for the Major and Local Streets Funds relate to the timing of the expenditures. These expenditures were included in the prior year's budget amounts but did not take place until the current year. The City had favorable variances for these line items in the prior year's financial statements.

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2004

Note 3 - Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The governing body has designated one bank for the deposit of City's funds. The investment policy adopted by the Council in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs for the City's funds and the Retirement Systems funds are authorized for all of the above investments.

The City's deposits and investment policy is in accordance with statutory authority.

The Retirement Systems Funds are also authorized by various State of Michigan laws to invest in certain corporate equity or debt instruments and certain other specified investment vehicles.

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total Primary Government	Component Units
Cash and cash equivalents	\$ 16,954,164	\$ 4,732,138	\$ 10,653,645	\$ 32,339,947	\$ 4,968,781
Marketable securities	-	-	139,088,606	139,088,606	-
Cash held as collateral for securities lending	-	-	11,218,277	11,218,277	-
Restricted assets	-	5,911,819	-	5,911,819	-
Total	<u>\$ 16,954,164</u>	<u>\$ 10,643,957</u>	<u>\$ 160,960,528</u>	<u>\$ 188,558,649</u>	<u>\$ 4,968,781</u>

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2004

Note 3 - Deposits and Investments (Continued)

The breakdown between deposits and investments for the City is as follows:

	Primary Government	Component Units
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 38,249,566	\$ 4,968,781
Marketable securities	139,088,606	-
Cash held as collateral for securities lending	11,218,277	-
Petty cash or cash on hand	2,200	-
Total	<u>\$ 188,558,649</u>	<u>\$ 4,968,781</u>

The bank balance of the primary government's deposits is \$37,523,381, of which approximately \$1,006,000 is covered by federal depository insurance. The component units' deposits had a bank balance of \$4,868,355, of which approximately \$486,000 was covered by federal depository insurance. The City believes that, due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

As permitted by State statutes, and under the provisions of a Securities Lending Authorization Agreement, the Police and Fire Pension System Trust Fund lends securities to broker-dealers and banks for collateral that will be returned for the same securities in the future. The Pension System's custodial bank manages the securities lending program and receives cash, government securities, or irrevocable bank letters of credit as collateral. Borrowers are required to deliver collateral for each loan equal to not less than 100 percent of the market value of the loaned securities. During the year ended June 30, 2004, only United States currency was received as collateral.

The Fire and Police Pension System did not impose any restrictions during the fiscal year on the amount of loans made on its behalf by the custodial bank. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the fiscal year. Moreover, there were no losses during the fiscal year resulting from a default of the borrowers or the custodial bank.

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2004

Note 3 - Deposits and Investments (Continued)

The Fire and Police Pension System and the borrower maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other lenders, in an investment pool. The average duration of such investment pool as of June 30, 2004 was 163 days. Because the loans are terminable on demand, their duration did not generally match the maturity date of investments made with cash collateral. The aggregate collateral held and the fair value of the underlying securities on loan for the Fire and Police Pension System as of June 30, 2004 was \$11,218,277 and \$10,849,420, respectively.

Investments are categorized into these three categories of credit risk:

Category 1 - Insured or registered, with securities held by the City or its agent in the City's name;

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name; and

Category 3 - Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name.

At year end, the City's investment balances were categorized as follows:

	Category			Reported Amount (Fair Value)
	1	2	3	
Primary government:				
U.S. government securities	\$ -	\$ 12,515,073	\$ -	\$ 12,515,073
Common stocks	-	66,531,456	-	66,531,456
Limited partnerships	-	982,285	-	982,285
Corporate bonds	-	33,666,493	-	33,666,493
Subtotal	<u>\$ -</u>	<u>\$ 113,695,307</u>	<u>\$ -</u>	<u>113,695,307</u>
Mutual funds				14,543,879
Investments held by broker-dealers and banks				
under securities loans:				
U.S. government securities				3,787,742
Common stocks				<u>7,061,678</u>
Total investments				<u>\$ 139,088,606</u>

Note 3 - Deposits and Investments (Continued)

The mutual funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes that the investments comply with the investment authority noted above. The mutual funds are registered with the SEC.

Included in the City pension funds investments at June 30, 2004 are the following:

- Approximately \$677,616 of securities issued by the Government National Mortgage Association (GNMA), \$4,422,854 of securities issued by the Federal National Mortgage Association (FNMA), and \$2,796,364 of securities issued by the Federal Home Loan Mortgage Association (FHLM). These investments are backed by the full faith and credit of the U.S. government. The yields provided by these mortgage-related securities historically have exceeded the yields on other types of U.S. government securities with comparable maturities, in large measure due to the potential for prepayment. Prepayment could result in difficulty in reinvesting the prepaid amounts in investments with comparable yields.
- Approximately \$3,186,152 of collateralized mortgage obligations. These investments are usually not backed by the full faith and credit of the U.S. government, but are generally considered to offer modest credit risks. The yields provided by these mortgage-related securities historically have exceeded the yields on other types of U.S. government securities with comparable maturities, in large measure due to the potential for prepayment. Prepayment could result in difficulty in reinvesting the prepaid amounts in investments with comparable yields.

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2004

Note 4 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Special assessments	\$ 260,276	\$ -
Grant payments received prior to meeting all eligibility requirements	-	104,638
Other	-	3,030
Total	<u>\$ 260,276</u>	<u>\$ 107,668</u>

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2004

Note 5 - Capital Assets

Capital asset activity of the primary government's governmental and business-type activities was as follows:

	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 5,567,340	\$ -	\$ -	\$ 5,567,340
Construction in progress	454,527	4,604,027	-	5,058,554
Subtotal	6,021,867	4,604,027	-	10,625,894
Capital assets being depreciated:				
Roads, sidewalks, and street signs	36,318,053	4,028,366	-	40,346,419
Buildings and improvements	11,266,147	612,454	-	11,878,601
Machinery, equipment, and vehicles	7,687,325	145,184	-	7,832,509
Library books	2,707,000	-	-	2,707,000
Subtotal	57,978,525	4,786,004	-	62,764,529
Accumulated depreciation:				
Roads, sidewalks, and street signs	9,513,006	1,710,710	-	11,223,716
Buildings and improvements	3,966,868	202,169	-	4,169,037
Machinery, equipment, and vehicles	4,685,966	654,096	-	5,340,062
Library books	2,436,300	-	-	2,436,300
Subtotal	20,602,140	2,566,975	-	23,169,115
Net capital assets being depreciated	37,376,385	2,219,029	-	39,595,414
Net capital assets	\$ 43,398,252	\$ 6,823,056	\$ -	\$ 50,221,308

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2004

Note 5 - Capital Assets (Continued)

	Balance July 1, 2003	Additions	Disposals	Balance June 30, 2004
Business-type Activities				
Capital assets not being depreciated:				
Land	\$ 451,171	\$ -	\$ -	\$ 451,171
Construction in progress	109,904	12,893	-	122,797
Subtotal	561,075	12,893	-	573,968
Capital assets being depreciated:				
Water system	17,493,790	1,053,647	105,365	18,442,072
Sewer system	89,005,738	371,917	37,462	89,340,193
Buildings and building improvements	438,694	-	-	438,694
Equipment, vehicles, furniture, and fixtures	3,215,164	265,586	-	3,480,750
Subtotal	110,153,386	1,691,150	142,827	111,701,709
Accumulated depreciation:				
Water system	6,234,314	428,443	105,365	6,557,392
Sewer system	12,446,074	1,750,735	37,462	14,159,347
Buildings and building improvements	358,763	3,338	-	362,101
Equipment, vehicles, furniture, and fixtures	2,791,621	225,184	-	3,016,805
Subtotal	21,830,772	2,407,700	142,827	24,095,645
Net capital assets being depreciated	88,322,614	(716,550)	-	87,606,064
Net capital assets	\$ 88,883,689	\$ (703,657)	\$ -	\$ 88,180,032

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 72,705
Public safety	409,466
Public works	1,985,860
Recreation and culture	98,944
Total governmental activities	<u>\$ 2,566,975</u>
Business-type activities - Water and sewer	<u>\$ 2,407,700</u>

Public works-related capital expenditures incurred by the Tax Increment Finance Authority, a component unit of the City, resulting in assets that are maintained by the Water and Sewer Fund of the City, are recorded as assets of the Water and Sewer Fund. A correlating revenue related to capital contributions is reflected in the Water and Sewer Fund in the year the expenditure is incurred by the Tax Increment Finance Authority.

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2004

Note 5 - Capital Assets (Continued)

Component Unit

	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 2,767,640	\$ -	\$ -	\$ 2,767,640
Construction in progress	18,323,139	2,400,961	20,724,100	-
Subtotal	21,090,779	2,400,961	20,724,100	2,767,640
Capital assets being depreciated:				
Buildings and improvements	-	20,724,100	-	20,724,100
Roads	5,000,000	-	-	5,000,000
Subtotal	5,000,000	20,724,100	-	25,724,100
Accumulated depreciation:				
Buildings and improvements	-	505,128	-	505,128
Roads	1,800,000	200,000	-	2,000,000
Subtotal	1,800,000	705,128	-	2,505,128
Net capital assets being depreciated	3,200,000	20,018,972	-	23,218,972
Net capital assets	<u>\$ 24,290,779</u>	<u>\$ 22,419,933</u>	<u>\$ 20,724,100</u>	<u>\$ 25,986,612</u>

Construction Commitments - The City of Dearborn Heights has active construction projects at year end. The City has the reconstruction of the Caroline Kennedy Library and the John F. Kennedy Jr. Library in process at year end. At year end, the City's commitments with contractors are as follows:

	Spent to date	Remaining Commitment
Libraries	<u>\$ 5,058,554</u>	<u>\$ 7,879,467</u>

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2004

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Corporate Fund	Major Streets Fund	\$ 229,750
Corporate Fund	Local Streets Fund	97,051
Corporate Fund	Water and Sewer Fund	170,163
Corporate Fund	Other nonmajor funds	42,652
	Total Corporate Fund	539,616
Other nonmajor funds	Corporate Fund	318,634
	Total governmental funds	858,250
Water and Sewer Fund	Corporate Fund	248,288
	Total due from other funds	\$ 1,106,538

Interfund Transfers - The Corporate Fund transferred \$233,336 to the Fire Station Bonds nonmajor Debt Service Fund for the current year payments on those bonds. The Library nonmajor Special Revenue Fund transferred \$2,831,023 to the major Capital Projects Fund for the costs associated with the construction of the two new libraries.

Note 7 - Long-term Debt

The government issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. County contractual agreements and installment purchase agreements are also general obligations of the government. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the government is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2004

Note 7 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

	Matures	Interest Rate	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities							
General obligation bonds:							
Contractual obligation - Ecorse Creek							
Pollution Abatement Refunding Bonds	2004	6.00%	\$ 116,343	\$ -	\$ 116,343	\$ -	\$ -
Building Authority Fire Station Bonds	2028	4.875%-5.15%	3,290,000	-	70,000	3,220,000	70,000
Energy Savings Plan note payable	2006	6.10%	240,000	-	75,000	165,000	80,000
Library Bonds	2033	3.00%-4.75%	-	9,000,000	-	9,000,000	120,000
Installment purchase contract	2008	4.90%	525,000	-	95,000	430,000	100,000
Total governmental activities			\$ 4,171,343	\$ 9,000,000	\$ 356,343	\$ 12,815,000	\$ 370,000
Business-type Activities							
General obligation bonds:							
Wayne County North Huron Valley -							
Rouge Valley Refunding Bonds	2009	5.70%-6.00%	\$ 2,666,685	\$ -	\$ 377,460	\$ 2,289,225	\$ 408,915
Limited Tax Wastewater Disposal System							
Refunding Bonds	2010	4.70%-4.90%	3,350,000	-	400,000	2,950,000	415,000
Wayne County Rouge Valley Wastewater							
Control System Bonds	2005	6.20%	1,015,000	-	490,000	525,000	525,000
Wayne County Rouge Valley Wastewater							
Control System Bonds	2017	4.00%-4.85%	10,445,000	-	105,000	10,340,000	110,000
County contractual obligations:							
State Revolving Loan Fund	2016	2.25%	1,855,000	-	125,000	1,730,000	130,000
State Revolving Loan Fund	2016	2.25%	644,667	-	48,919	595,748	54,605
State Revolving Loan Fund	2021	2.25%	19,088,004	-	979,691	18,108,313	1,003,973
State Revolving Loan Fund	2022	2.25%	222,253	-	11,024	211,229	10,006
State Revolving Loan Fund	2021	2.25%	4,919,957	-	224,262	4,695,695	229,529
Wayne County Sewage Disposal Bonds -							
Series A and B	2004	6.30%	33,000	-	33,000	-	-
Downriver Sewage Disposal Bonds - Series							
A Refunding	2014	4.50%-5.125%	507,035	-	4,790	502,245	39,972
Downriver Sewage Disposal							
Completion Bonds	2019	4.50%-5.125%	1,017,056	-	43,952	973,104	45,846
Subtotal			45,763,657	-	2,843,098	42,920,559	2,972,846
Less deferred charge on refunding			1,251,058	-	110,470	1,140,588	-
Total business-type activities			\$ 44,512,599	\$ -	\$ 2,732,628	\$ 41,779,971	\$ 2,972,846

Long-term debt for the component units is as follows:

	Matures	Interest Rate	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities							
General obligation bonds:							
Limited Tax Development Bonds	2009	5.70%-6.30%	\$ 2,950,000	\$ -	\$ 450,000	\$ 2,500,000	\$ 450,000
Limited Tax Development Bonds	2019	4.75%-5.00%	3,050,000	-	135,000	2,915,000	140,000
Tax Increment Bonds, Series 2001-A	2031	4.25%-5.00%	21,000,000	-	-	21,000,000	350,000
Total general obligations			\$ 27,000,000	\$ -	\$ 585,000	\$ 26,415,000	\$ 940,000

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2004

Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above governmental, business-type, and component units bond and note obligations are as follows:

	Governmental Activities			Business-type Activities			Component Units		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 370,000	\$ 574,605	\$ 944,605	\$ 2,972,846	\$ 1,381,385	\$ 4,354,231	\$ 940,000	\$ 1,276,985	\$ 2,216,985
2006	395,000	557,691	952,691	3,106,277	1,270,531	4,376,808	1,020,000	1,227,547	2,247,547
2007	330,000	539,682	869,682	3,202,277	1,158,995	4,361,272	1,050,000	1,173,760	2,223,760
2008	345,000	526,192	871,192	3,303,287	1,043,090	4,346,377	1,110,000	1,117,086	2,227,086
2009	245,000	512,035	757,035	3,479,679	921,576	4,401,255	1,140,000	1,057,639	2,197,639
2010-2014	1,490,000	2,239,871	3,729,871	13,729,739	3,045,693	16,775,432	3,645,000	4,747,574	8,392,574
2015-2019	2,000,000	2,052,476	4,052,476	11,327,109	907,019	12,234,128	4,735,000	3,819,259	8,554,259
2020-2024	2,560,000	1,558,538	4,118,538	1,799,345	41,718	1,841,063	4,500,000	2,655,750	7,155,750
2025-2029	3,025,000	891,632	3,916,632	-	-	-	5,550,000	1,405,000	6,955,000
2030-2034	2,055,000	245,324	2,300,324	-	-	-	2,725,000	139,375	2,864,375
Total	\$ 12,815,000	\$ 9,698,046	\$ 22,513,046	\$ 42,920,559	\$ 9,770,007	\$ 52,690,566	\$ 26,415,000	\$ 18,619,975	\$ 45,034,975

Defeased Debt - In prior years, the City defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in the general purpose financial statements. At June 30, 2004, approximately \$12.4 million of bonds outstanding are considered defeased.

Note 8 - Restricted Assets

Restricted assets at June 30, 2004 consist of deposits at the county being held for water and sewer line construction and debt payments of \$5,911,819. As discussed in Note 1, the restricted assets result mainly from the issuance of debt and net assets have been reserved for restricted assets.

Note 9 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical claims and participates in the Michigan Municipal Risk Management Authority for claims relating to general liability and auto liability, auto physical damage, and property loss claims; the City is uninsured for workers' compensation claims within certain limits. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2004

Note 9 - Risk Management (Continued)

The Michigan Municipal Risk Management Authority risk pool program operates as a claims servicing pool for amounts up to member retention limits and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Authority that the Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the City.

The City estimates the liability for workers' compensation and general liability claims that have been incurred through the end of the fiscal year, including claims that have been reported as well as those that have not yet been reported. Changes in the estimated liability for the past two fiscal years were as follows:

	Workers' Compensation	General Liability
Estimated liability - July 1, 2002	\$ 273,730	\$ 969,797
Estimated claims incurred, including changes in estimates	(161,821)	161,562
Claim payments	<u>161,821</u>	<u>(258,295)</u>
Estimated liability - June 30, 2003	273,730	873,064
Estimated claims incurred, including changes in estimates	103,704	432,843
Claim payments	<u>(147,434)</u>	<u>(315,860)</u>
Estimated liability - June 30, 2004	<u>\$ 230,000</u>	<u>\$ 990,047</u>

The City is involved in litigation related to various other matters. At the current time, the outcome or potential liability related to these matters cannot be determined. In addition, the extent of insurance coverage related to these matters cannot be determined at this time.

Note 10 - Defined Benefit Pension Plan and Postretirement Benefits

General Government Employees' Retirement System

Plan Description - The General Government Employees' Retirement System is a single-employer defined benefit pension plan that is administered by the Pension Committee for the General Government Employees' Retirement System; this plan covers all full-time employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2004, the date of the most recent actuarial valuation, membership consisted of 130 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them and 136 current active employees. The plan does not issue a separate financial report.

Contributions - Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining units. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are paid for by the Corporate Fund.

Annual Pension Cost - For the year ended June 30, 2004, the City's annual pension cost of \$355,408 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at June 30, 2004 using the entry actual age cost method. Significant actuarial assumptions used include (a) a 7.00 percent investment rate of return, (b) projected salary increases of 5 percent per year, and (c) no cost of living adjustments. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The amortization period is 15 years.

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2004

Note 10 - Defined Benefit Pension Plan and Postretirement Benefits (Continued)

Reserves - As of June 30, 2004, the plan's required reserves have been funded as follows:

Legally required reserves - Reserve for retiree benefit payments	\$ 16,109,606
Additional reserves - Reserve for employer contributions	17,692,247
Total reserves	<u>\$ 33,801,853</u>

	Fiscal Year Ended June 30		
	2002	2003	2004
Annual pension costs (APC)	\$ -	\$ -	\$ 355,408
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

Policemen and Firemen Retirement System

Plan Description - The Policemen and Firemen Retirement System is a single-employer defined benefit pension plan that is administered by the Pension Committee for the Policemen and Firemen Retirement System; this plan covers all full-time police and fire employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2004, the date of the most recent actuarial valuation, membership consisted of 141 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them and 138 current active employees. The plan does not issue a separate financial report.

Contributions - Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining units and required a contribution from the policemen, police supervisors, and firemen of 5 percent, 5.5 percent, and 5 percent, respectively. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through contributions to the plan.

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2004

Note 10 - Defined Benefit Pension Plan and Postretirement Benefits (Continued)

Annual Pension Cost - For the year ended June 30, 2004, the City's annual pension cost of \$1,354,713 for the plan was equal to the City's required and actual contribution. In addition, the City contributed approximately \$1,302,000 for retiree medical expenses and \$375,000 for administrative costs of the plan. The annual required contribution was determined as part of an actuarial valuation at June 30, 2004 using the entry actual age cost method. Significant actuarial assumptions used include (a) a 7.00 percent investment rate of return, (b) projected salary increases of 5 percent per year, and (c) no cost of living adjustments. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The amortization period is 15 years.

Reserves - As of June 30, 2004, the plan's required reserves have been funded as follows:

Legally required reserves:

Reserve for employees' contributions	\$ 7,528,961
Reserve for retiree benefit payments	48,938,290
Additional reserves - Reserve for employer contributions	<u>59,654,377</u>
Total reserves	<u>\$ 116,121,628</u>

	Fiscal Year Ended June 30		
	2002	2003	2004
Annual pension costs (APC)	\$ 494,535	\$ 617,806	\$ 1,354,713
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

Note 10 - Defined Benefit Pension Plan and Postretirement Benefits (Continued)

In a prior period, the Police and Fire Retirement System assumed the reporting responsibility for the payment of postemployment health benefits for retired police and fire employees that were previously recorded as an expenditure in the Corporate Fund. During the year ended June 30, 2004, the City's Corporate Fund contributed, and the Police and Fire Retirement System expensed, postemployment benefits totaling \$1,302,000. This expense represents the cost to meet current year claims and expenses on a cash basis, consistent with the City's historical accounting policy, and is not the result of any actuarial determination of future benefit funding requirements. Accordingly, no portion of fund balance has been reserved and no actuarial computed information has been included in this report to reflect future obligations with respect to health benefits paid to police and fire retirees.

Note 11 - Postemployment Benefits

The City provides health care benefits to all full-time employees upon retirement, in accordance with labor contracts. Currently, 271 retirees are eligible. The City includes pre-Medicare retirees and their dependents in its insured health care plan, with partial contributions required by some of the participants. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment health care benefits are recognized as the insurance premiums become due (which is not an actuarially determined amount); during the year, this amounted to approximately \$782,000 in the Corporate Fund and approximately \$1,302,000 in the Policemen and Firemen Retirement System.

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2004

Note 12 - Reserved and Designated Fund Balances/Net Assets

Fund balances/net assets have been reserved for the following purposes:

	Corporate Fund	Capital Projects Fund	Water and Sewer Fund	Trust and Agency Fund
Debt service and other	\$ 536,279	\$ -	\$ 5,911,819	\$ -
Capital projects	-	7,766,873	-	-
Cable improvements	207,057	-	-	-
Employees' retirement systems	-	-	-	149,923,481
Total	<u>\$ 743,336</u>	<u>\$ 7,766,873</u>	<u>\$ 5,911,819</u>	<u>\$ 149,923,481</u>

Fund balances have been designated for the following purposes:

	Corporate Fund	Major Streets Fund	Local Streets Fund	Other Nonmajor Funds	Component Units
Designated:					
Working capital purposes	\$ 1,121,486	\$ -	\$ -	\$ -	\$ -
Insurance claims	412,047	-	-	-	-
Retiree benefit	356,081	-	-	-	-
911 expenditures	680,747	-	-	-	-
Capital projects	-	-	-	-	3,486,523
Total designated	2,570,361	-	-	-	3,486,523
Undesignated	(730,969)	1,216,563	2,149,197	896,835	-
Total unreserved and undesignated fund balance	<u>\$ 1,839,392</u>	<u>\$ 1,216,563</u>	<u>\$ 2,149,197</u>	<u>\$ 896,835</u>	<u>\$ 3,486,523</u>

City of Dearborn Heights, Michigan

Notes to Financial Statements June 30, 2004

Note 13 - Construction Code Fees

The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. Beginning January 1, 2000, the law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the activity since January 1, 2000 is as follows:

Cumulative shortfall at July 1, 2003	\$ (17,323)
Current year building permit revenue	629,138
Related expenditures:	
Direct costs	\$ 513,670
Estimated indirect costs	<u>118,025</u>
Total construction code expenditures	<u>631,695</u>
Cumulative shortfall at June 30, 2004	<u><u>\$ (19,880)</u></u>

Note 14 - Commitment

The City had been named as a defendant in a lawsuit alleging violations of the Clean Water Act occurring in the Downriver Sewage Treatment System. Several other communities, including Wayne County, were also named as defendants. Under terms of the consent decree, the communities were required to undertake construction projects to expand the capacity of the system and eliminate any violations of the Clean Water Act. The estimated total cost of the projects is approximately \$280,000,000, with the City's share estimated to be approximately \$34,000,000. To date, the City has issued approximately \$33,300,000 in debt to fund this project. In addition, the City will have other significant sewer commitments under the Clean Water Act; the amount of these commitments cannot presently be determined. To date, approximately \$13,919,000 has been collected through the property tax levy for debt payments.

Note 15 - Loss of a Major Taxpayer and Subsequent Event

During the current year, the partnership under contract to operate the Central Wayne County Sanitation Authority (a joint venture of the City) ceased operations and has declared bankruptcy. The taxable value of the assets owned by the partnership is captured in its entirety by the Tax Increment Finance Authority (a component unit of the City), where it accounts for 20.4 percent of the Tax Increment Finance Authority's captured taxable value.

Note 15 - Loss of a Major Taxpayer and Subsequent Event (Continued)

In addition, the incinerator run by the partnership is currently before the Michigan Tax Tribunal, arguing that their taxes assessed as of July 1, 2004 based on a December 2003 valuation (to be recognized as revenue for the 2005 fiscal year) is not correct. They are arguing that the valuation was prepared under the income method and, since the partnership is not in operation, the valuation should be minimal compared to the calculated amount. The levied taxes under the income method are approximately \$350,000. It is anticipated that the incinerator will be razed and the assets related to the current captured taxable value will no longer exist. No potential refund has been recorded at June 30, 2004.

Required Supplemental Information

City of Dearborn Heights, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Corporate Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 2,385,242	\$ 2,385,242	\$ 2,385,242	\$ -
Revenues				
Property taxes	17,958,592	17,958,592	17,829,976	(128,616)
State-shared revenue	6,754,448	6,754,448	6,214,637	(539,811)
Reimbursement from other funds	3,540,000	3,565,000	2,969,785	(595,215)
Licenses and permits	908,000	984,860	1,125,522	140,662
Interest earned	100,000	100,000	109,560	9,560
Court costs, fines, and violations	2,275,000	2,275,000	2,200,211	(74,789)
Charges for services	1,411,050	1,471,050	1,466,117	(4,933)
Miscellaneous	1,417,050	1,604,785	1,467,919	(136,866)
Total revenues	34,364,140	34,713,735	33,383,727	(1,330,008)
Expenditures				
General government:				
Legislative	84,704	84,704	75,045	9,659
Executive	342,154	342,154	312,543	29,611
Elections	123,613	123,613	74,171	49,442
Treasurer's office	355,836	355,836	326,918	28,918
City Clerk's office	254,252	254,252	226,992	27,260
Comptroller's office	422,195	423,055	399,713	23,342
Assessor's office	354,167	354,167	335,322	18,845
Civil Service Commission	6,328	5,250	-	5,250
Board of Appeals	9,820	9,820	8,236	1,584
Building Authority	1,058	2,208	1,793	415
Civil Service - Act No. 78	7,578	8,656	7,877	779
Data processing	75,000	90,000	81,529	8,471
Personnel	98,362	98,362	93,770	4,592
General government	5,678,895	5,376,204	5,183,050	193,154
General Government Employees' Pension Commission	181,917	181,917	153,528	28,389
Public safety:				
Judicial	1,386,769	1,428,194	1,357,198	70,996
Police department	10,858,657	10,899,918	10,514,283	385,635
Fire department	5,343,714	5,591,579	5,383,927	207,652
Protective inspection	829,593	839,593	700,597	138,996
Corporation counsel	164,000	164,000	142,908	21,092
Public works:				
Building maintenance	962,349	958,309	911,293	47,016
Sanitation	3,882,200	3,882,200	3,912,581	(30,381)
Highways, streets, and bridges	1,995,913	2,015,913	1,876,985	138,928
Community and Economic Development:				
Planning Commission	14,462	14,462	9,213	5,249
Cable TV Commission	54,598	57,441	66,611	(9,170)

City of Dearborn Heights, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Corporate Fund (Continued) Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Expenditures (Continued)				
Recreation and culture:				
Recreation	\$ 563,476	\$ 608,905	\$ 533,927	\$ 74,978
Young Recreation Center	312,530	312,530	262,895	49,635
Transfers to other funds	-	233,336	233,336	-
Total expenditures	<u>34,364,140</u>	<u>34,716,578</u>	<u>33,186,241</u>	<u>1,530,337</u>
Fund Balance - End of year	<u>\$ 2,385,242</u>	<u>\$ 2,382,399</u>	<u>\$ 2,582,728</u>	<u>\$ 200,329</u>

City of Dearborn Heights, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Year Ended June 30, 2004

	Major Streets Fund			Variance with Amended Budget
	Original Budget	Amended Budget	Actual	
Fund Balance - Beginning of year	\$ 978,508	\$ 978,508	\$ 978,508	\$ -
Revenues				
Federal sources	-	-	1,820,176	1,820,176
State sources	2,298,564	2,298,564	2,792,196	493,632
Local sources	422,500	422,500	142,705	(279,795)
Interest income	10,000	10,000	10,667	667
Transfer from other funds	250,000	250,000	-	(250,000)
Total revenues	2,981,064	2,981,064	4,765,744	1,784,680
Expenditures - Public works				
Street maintenance	1,500,000	1,500,000	1,084,816	415,184
Winter maintenance	365,000	365,000	273,694	91,306
Administration	250,000	250,000	222,510	27,490
Traffic services	35,000	35,000	43,528	(8,528)
Street and bridge construction	1,272,500	1,272,500	2,903,141	(1,630,641)
Total expenditures	3,422,500	3,422,500	4,527,689	(1,105,189)
Fund Balance - End of year	\$ 537,072	\$ 537,072	\$ 1,216,563	\$ 679,491
	Local Streets Fund			Variance with Amended Budget
	Original Budget	Amended Budget	Actual	
Fund Balance - Beginning of year	\$ 1,787,484	\$ 1,787,484	\$ 1,787,484	\$ -
Revenues				
State sources	934,093	934,093	991,638	57,545
Local sources	225,000	225,000	570,821	345,821
Interest income	15,000	15,000	19,277	4,277
Miscellaneous revenue	4,500	4,500	3,534	(966)
Total revenues	1,178,593	1,178,593	1,585,270	406,677
Expenditures - Public works				
Street maintenance	500,000	500,000	453,978	46,022
Winter maintenance	10,000	10,000	20,327	(10,327)
Administration	95,000	95,000	92,530	2,470
Traffic services	100,000	100,000	83,640	16,360
Street and bridge construction	578,250	578,250	573,082	5,168
Transfer to other funds	-	-	-	-
Total expenditures	1,283,250	1,283,250	1,223,557	59,693
Fund Balance - End of year	\$ 1,682,827	\$ 1,682,827	\$ 2,149,197	\$ 466,370

City of Dearborn Heights, Michigan

Required Supplemental Information Pension System Schedule of Funding Progress June 30, 2004

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
General Government Employees' Retirement System						
6/30/99	\$ 26,962,766	\$ 24,073,469	\$ (2,889,297)	112.00	\$ 4,452,359	(64.89)
6/30/00	29,253,189	25,590,545	(3,662,644)	114.31	4,984,607	(73.48)
6/30/01	37,855,086	29,355,631	(8,499,455)	128.95	5,393,871	(157.58)
6/30/02	40,008,468	30,990,667	(9,017,801)	129.10	5,860,613	(153.87)
6/30/03	34,543,090	32,352,969	(2,190,121)	106.77	5,397,409	(40.58)
6/30/04	33,166,549	33,982,504	815,955	97.60	5,435,052	15.01
Policeman and Fireman Retirement System						
6/30/99	\$ 78,903,103	\$ 76,216,724	\$ (2,686,379)	103.52	\$ 8,500,123	(31.60)
6/30/00	86,178,705	79,968,280	(6,210,425)	107.77	8,706,539	(71.33)
6/30/01	91,879,860	84,734,677	(7,145,183)	108.43	9,112,748	(78.41)
6/30/02	98,858,861	90,946,241	(7,912,620)	108.70	9,651,854	(81.98)
6/30/03	92,930,343	91,993,127	(937,216)	101.02	9,650,586	(9.71)
6/30/04	98,965,335	94,151,970	(4,813,365)	105.11	9,406,277	(51.17)

City of Dearborn Heights, Michigan

Required Supplemental Information Pension System Schedule of Funding Progress (Continued) June 30, 2004

The schedule of employer contributions is as follows:

General Government Employees' Retirement System

Fiscal Year Ended June 30	Annual Required Contribution*	Percentage Contributed
1999	\$ 298,535	100.0
2000	166,916	100.0
2001	106,675	100.0
2002	-	100.0
2003	-	100.0
2004	355,408	100.0

Policeman and Fireman Retirement System

Fiscal Year Ended June 30	Annual Required Contribution*	Percentage Contributed
1999	\$ 1,185,429	100.0
2000	880,063	100.0
2001	522,322	100.0
2002	494,535	100.0
2003	617,806	100.0
2004	1,354,713	100.0

* The required contribution is expressed to the City as a percentage of payroll.

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2002, the latest actuarial valuation, follows:

General Employees' Retirement System

Actuarial cost method	Entry age
Amortization method	15-year level dollar
Amortization period (perpetual)	15 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.00%
Projected salary increases	5.00%
Cost of living adjustments	None

City of Dearborn Heights, Michigan

Required Supplemental Information Pension System Schedule of Funding Progress (Continued) June 30, 2004

Police and Fire Retirement System

Actuarial cost method	Entry age
Amortization method	15-year level dollar
Amortization period (perpetual)	15 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.00%
Projected salary increases	5.00%
Cost of living adjustments	None

Other Supplemental Information

City of Dearborn Heights, Michigan

	Nonmajor Special Revenue Funds			
	Drug Enforcement	Miscellaneous Grants	Community Development Block Grant	Building
Assets				
Cash and cash equivalents	\$ 60,446	\$ 104,692	\$ 3,771	\$ -
Due from other governmental units	-	-	31,319	-
Due from other funds	-	-	-	257,545
Total assets	<u><u>\$ 60,446</u></u>	<u><u>\$ 104,692</u></u>	<u><u>\$ 35,090</u></u>	<u><u>\$ 257,545</u></u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	54	31,319	-
Escrow deposits	-	-	3,771	-
Deferred revenue	-	104,638	-	-
Total liabilities	-	104,692	35,090	-
Fund Balances - Undesignated	<u>60,446</u>	<u>-</u>	<u>-</u>	<u>257,545</u>
Total liabilities and fund balances	<u><u>\$ 60,446</u></u>	<u><u>\$ 104,692</u></u>	<u><u>\$ 35,090</u></u>	<u><u>\$ 257,545</u></u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2004**

Nonmajor Special Revenue Funds			Nonmajor Debt Service Fund	Total Nonmajor Governmental Funds
Housing Commission	Traffic Immobilization	Library	Fire Station Bonds	
\$ 3,030	\$ 719	\$ 732,949	\$ -	\$ 905,607
-	-	-	-	31,319
-	-	61,089	-	318,634
<u>\$ 3,030</u>	<u>\$ 719</u>	<u>\$ 794,038</u>	<u>\$ -</u>	<u>\$ 1,255,560</u>
\$ -	\$ -	\$ 204,634	\$ -	\$ 204,634
-	-	11,279	-	42,652
-	-	-	-	3,771
3,030	-	-	-	107,668
3,030	-	215,913	-	358,725
-	719	578,125	-	896,835
<u>\$ 3,030</u>	<u>\$ 719</u>	<u>\$ 794,038</u>	<u>\$ -</u>	<u>\$ 1,255,560</u>

City of Dearborn Heights, Michigan

	Nonmajor Special Revenue Funds			
	Drug	Miscellaneous	Community	
	Enforcement	Grants	Development	Building
			Block Grant	
Revenues				
Property taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental revenue:				
Federal	-	-	1,759,639	-
State aids and grants	-	177,944	-	-
Interest earned	558	-	-	-
Fines	-	-	-	239,600
Drug enforcement revenue	90,206	-	-	-
Total revenues	90,764	177,944	1,759,639	239,600
Expenditures				
Current:				
Grant-related expenditures:				
General government	-	-	290,928	-
Public works	-	134,041	976,580	-
Public safety	-	-	25,000	-
Recreation	-	43,903	337,969	-
Community and economic development	-	-	129,162	-
Drug enforcement	93,738	-	-	-
Library expenses	-	-	-	-
Other	-	-	-	273,142
Debt service	-	-	-	-
Total expenditures	93,738	177,944	1,759,639	273,142
Excess of Revenues Over (Under) Expenditures	(2,974)	-	-	(33,542)
Other Financing Sources (Uses)				
Operating transfers in	-	-	-	-
Operating transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net Change in Fund Balances	(2,974)	-	-	(33,542)
Fund Balances - July 1, 2003	63,420	-	-	291,087
Fund Balances - June 30, 2004	<u>\$ 60,446</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 257,545</u>

Other Supplemental Information
Combining Statement of Revenue, Expenditures,
and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2004

Nonmajor Special Revenue Funds			Nonmajor Debt Service Fund	Total Nonmajor Governmental Funds
Housing Commission	Traffic Immobilization	Library	Fire Station Bonds	
\$ -	\$ -	\$ 1,285,132	\$ -	\$ 1,285,132
-	-	-	-	1,759,639
-	-	161,573	-	339,517
12	-	28,777	-	29,347
-	-	-	-	239,600
-	-	-	-	90,206
12	-	1,475,482	-	3,743,441
-	-	-	-	290,928
-	-	-	-	1,110,621
-	-	-	-	25,000
-	-	-	-	381,872
12	-	-	-	129,174
-	-	-	-	93,738
-	-	488,221	-	488,221
-	1,048	-	-	274,190
-	-	-	233,336	233,336
12	1,048	488,221	233,336	3,027,080
-	(1,048)	987,261	(233,336)	716,361
-	-	-	233,336	233,336
-	-	(2,831,023)	-	(2,831,023)
-	-	(2,831,023)	233,336	(2,597,687)
-	(1,048)	(1,843,762)	-	(1,881,326)
-	1,767	2,421,887	-	2,778,161
<u>\$ -</u>	<u>\$ 719</u>	<u>\$ 578,125</u>	<u>\$ -</u>	<u>\$ 896,835</u>

City of Dearborn Heights, Michigan

Other Supplemental Information Combining Statement of Net Assets Pension Trust Funds June 30, 2004

	General Government Employees' Retirement System	Police and Fire Retirement System	Totals
Assets			
Cash and cash equivalents	\$ 4,911,472	\$ 5,541,844	\$ 10,453,316
Marketable securities:			
U.S. governmental securities	5,163,216	11,139,599	16,302,815
Common stock	14,679,156	58,913,978	73,593,134
Limited partnerships	245,571	736,714	982,285
Corporate bonds	8,652,544	25,013,949	33,666,493
Mutual funds	-	14,543,879	14,543,879
Cash held as collateral for securities lending	-	11,218,277	11,218,277
Other receivables	149,894	347,791	497,685
Total assets	33,801,853	127,456,031	161,257,884
Liabilities			
Accounts payable	-	116,126	116,126
Accrued and other liabilities	-	-	-
Due to Brownfield Authority	-	-	-
Collateral for securities lending	-	11,218,277	11,218,277
Total liabilities	-	11,334,403	11,334,403
Net Assets - Held in trust for employees' retirement systems	<u>\$ 33,801,853</u>	<u>\$ 116,121,628</u>	<u>\$ 149,923,481</u>

City of Dearborn Heights, Michigan

Other Supplemental Information Combining Statement of Changes in Net Assets Pension Trust Funds Year Ended June 30, 2004

	General Employees' Retirement System	Police and Fire Retirement System	Totals
Additions			
Investment income:			
Interest and dividends	\$ 1,169,840	\$ 3,335,122	\$ 4,504,962
Net increase in fair value of investments	2,318,681	11,727,302	14,045,983
Less investment expenses	-	(126,792)	(126,792)
Net investment income	3,488,521	14,935,632	18,424,153
Contributions:			
Employer	355,408	3,031,713	3,387,121
Employee	-	421,628	421,628
Total contributions	355,408	3,453,341	3,808,749
Securities lending income:			
Interest and fees	-	190,702	190,702
Less borrower rebates and bank fees	-	(146,388)	(146,388)
Net securities lending income	-	44,314	44,314
Total additions	3,843,929	18,433,287	22,277,216
Deductions			
Benefit payments	1,753,752	4,486,659	6,240,411
Fringe benefits	-	1,302,488	1,302,488
Administrative expenses	-	374,512	374,512
Total deductions	1,753,752	6,163,659	7,917,411
Net Increase	2,090,177	12,269,628	14,359,805
Net Assets Held in Trust for Pension Benefits			
Beginning of year	31,711,676	103,852,000	135,563,676
End of year	<u>\$ 33,801,853</u>	<u>\$ 116,121,628</u>	<u>\$ 149,923,481</u>

City of Dearborn Heights, Michigan

Federal Awards Supplemental Information June 30, 2004

City of Dearborn Heights, Michigan

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Independent Auditor's Report

To the Mayor and City Council
City of Dearborn Heights, Michigan

We have audited the basic financial statements of the City of Dearborn Heights, Michigan for the year ended June 30, 2004 and have issued our report thereon dated October 13, 2004. Those basic financial statements are the responsibility of the management of the City of Dearborn Heights, Michigan. Our responsibility was to express an opinion on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the basic financial statements of the City of Dearborn Heights, Michigan taken as a whole. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The information in this schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

October 13, 2004

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Report Letter on Compliance with Laws and Regulations and
Internal Control - Basic Financial Statements

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To the Mayor and City Council
City of Dearborn Heights, Michigan

We have audited the financial statements of the City of Dearborn Heights, Michigan as of and for the year ended June 30, 2004 and have issued our report thereon dated October 13, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Dearborn Heights, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Dearborn Heights, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Audit Committee, City Council, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

October 13, 2004



Report Letter on Compliance with Laws and Regulations and
Internal Control - Major Federal Awards

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To the Mayor and City Council
City of Dearborn Heights, Michigan

Compliance

We have audited the compliance of the City of Dearborn Heights, Michigan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. The major federal programs of the City of Dearborn Heights, Michigan are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Dearborn Heights, Michigan's management. Our responsibility is to express an opinion on the City of Dearborn Heights, Michigan's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Dearborn Heights, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Dearborn Heights, Michigan's compliance with those requirements.

In our opinion, the City of Dearborn Heights, Michigan complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 04-I.

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To the Mayor and City Council
City of Dearborn Heights, Michigan

Internal Control Over Compliance

The management of the City of Dearborn Heights, Michigan is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Dearborn Heights, Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Audit Committee, City Council, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

October 21, 2004

City of Dearborn Heights, Michigan

Schedule of Expenditures of Federal Awards Year Ended June 30, 2004

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Federal Expenditures
U.S. Department of Housing and Urban Development Community Development Block Grant Program:		
2003 program year - B-03-MC-26-0005	14.218	\$ 1,132,799
2002 program year - B-02-MC-26-0005	14.218	455,264
2001 program year - B-01-MC-26-0005	14.218	169,202
2000 program year - B-0/-MC-26-0005	14.218	924
1997 program year - B-97-MC-26-0005	14.218	<u>1,450</u>
Total U.S. Department of Housing and Urban Development		<u>1,759,639</u>
U.S. Department of Transportation - Federal Surface Transportation Grant - Passed through the Michigan Department of Transportation - State administered expenditures:		
U.S. 24 from Van Born to Dartmouth	20.205	1,325,079
U.S. 24 concrete overlay over Ecorse Creek	20.205	35,323
U.S. 24 from Ecorse to Van Born	20.205	<u>459,774</u>
Total U.S. Department of Transportation		<u>1,820,176</u>
Total federal awards		<u>\$ 3,579,815</u>

City of Dearborn Heights, Michigan

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2004

Note 1 - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Dearborn Heights, Michigan and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2 - Subrecipient Awards

Of the federal expenditures presented in the schedule of expenditures of federal awards, federal awards were provided to subrecipients as follows:

Federal Program	CFDA		Amount
	Number	Description	
Community Development Block Grant	14.218	First Step	\$ 20,000

City of Dearborn Heights, Michigan

Schedule of Findings and Questioned Costs Year Ended June 30, 2004

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Type of auditor's report issued on compliance for major program: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ☒ Yes ☐ No

Identification of major program(s):

CFDA Numbers	Name of Federal Program or Cluster
14.218	Community Development Block Grant
22.205	Michigan Department of Transportation

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? ☐ Yes ☒ No

City of Dearborn Heights, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2004

Section II - Financial Statement Audit Findings

None

Section III - Federal Program Audit Findings

Reference Number	Findings
04-1	<p>Program Name - Community Development Block Grant, CFDA 14.218</p> <p>Finding Type - Material noncompliance</p> <p>Criteria - The U.S Office of Management and Budget (OMB) Circular A-133 requires that all construction-related contracts greater than \$25,000 are awarded through a procurement process.</p> <p>Condition - The City of Dearborn Heights, Michigan utilized one vendor for engineering services without utilizing their procurement process.</p> <p>Questioned Costs - \$309,072</p> <p>Recommendation - The City of Dearborn Heights, Michigan should follow their procurement process for all construction-related contracts greater than \$25,000 for projects completed with Community Development Block Grant funds.</p> <p>Grantee Response - The City of Dearborn Heights, Michigan has begun the process of preparing a request for proposal for the next fiscal year and will follow their procurement process for any future construction-related contracts greater than \$25,000 for projects completed with Community Development Block Grant funds.</p>

November 29, 2004

To the Honorable Mayor and
Members of the City Council
City of Dearborn Heights
6045 Fenton
Dearborn Heights, MI 48127

Dear Mayor and Council Members:

We have recently completed our audit of the financial statements of the City of Dearborn Heights, Michigan for the year ended June 30, 2004. In addition to the audit report, we offer the following comments for your consideration.

State-shared Revenue

State-shared revenue accounts for approximately 18.5 percent of the City's total General Fund revenue (down from approximately 22 percent for the year ended June 30, 2001). Because of slower than anticipated growth in the State's sales tax collections (the sole source of revenue-sharing payments to local units of government) and the State's budget problems, which have resulted in additional appropriation reductions to the revenue-sharing line item in the State's budget, revenue-sharing payments for the last several years have been lower than anticipated.

Although sales tax revenue would support an increase to total state-shared revenue payments, the State's budget situation remains troublesome at best. As you are probably aware, the governor's budget for the State's 2004/2005 fiscal year contains a provision to not pay counties statutory revenue sharing (the counties' only source of revenue sharing). Instead, the counties will change their property tax levy date for their operating millage from December to July (beginning in 2005). A portion of the additional funds generated from the early property tax levy will be used by the counties over a multiple-year period to replace statutory revenue sharing that will not be paid by the State. The plan calls for the return of statutory revenue sharing for the counties when their restricted monies from the early levy run out. A key part to this plan allows the State to hold revenue-sharing payments to cities, villages, and townships for the State's 2004/2005 fiscal year at the prior year levels. This plan was recently approved by the Michigan legislature and signed by the governor.

It is generally acknowledged that the State's budget woes will continue for several more years. The governor recently announced that another \$500 million shortfall exists for the State's 2005/2006 fiscal year budget (the State's 2005/2006 fiscal year budget will be introduced by the governor in early 2005). Also, during October 2004, the governor announced that her administration may introduce a significant tax restructuring proposal shortly. Specific details of the proposal have not been formally announced and the impact on significant revenue sources to local governments, such as personal property taxes and revenue sharing, is not known. As a result of the continuing uncertainty with the State's budget situation and other potential developments with changes to the State's tax structure, we continue to urge the City to be very conservative in its estimation of state-shared revenue as this line item in the State's budget remains vulnerable.

The table below details state-shared revenue for the City over the past four years broken out by statutory and constitutional portions. In addition, it details the total decrease in state-shared revenue experienced by the City compared to the State's fiscal year 2001.

State Fiscal Year	Statutory	Constitutional	Total	Decrease from 2001
2001	\$ 3,485,294	\$ 3,780,878	\$ 7,266,172	\$ -
2002	3,215,483	3,819,392	7,034,875	231,297
2003	2,849,771	3,884,053	6,733,824	532,348
2004	2,210,179	3,841,864	6,052,043	1,214,129

We will continue to update the City as developments occur.

Property Assessment Cap

As you recall, Proposal A limits the growth in taxable value to the lesser of inflation or 5 percent. The inflation factor for this calculation is published by the State Tax Commission and is as follows:

2004	2.3%	2001	3.2%
2003	1.5%	2000	1.9%
2002	3.2%	1999	1.6%

The 2003 inflation factor was used for property taxes levied in the City's fiscal year ended June 30, 2004. Property taxes are the City's largest source of General Fund revenue. However, as you are aware, growth in existing property can be significantly limited due to Proposal A.

Also, as you probably recall, the Headlee Amendment to the Michigan Constitution limits the amount of taxes that can be levied by the City. In general terms, if growth on the City's existing property tax base exceeds inflation for a particular year, the Headlee Amendment requires the City to "roll back" its property tax rate to inflation. Prior to the passage of Proposal A in 1994, during years when the growth on the City's existing property tax base was less than inflation, the Headlee Amendment allowed the City to "roll up" its property tax rate and recover from years when the property tax rate was "rolled back." However, subsequent to the passage of Proposal A and as a result of changes made to the State's General Property Tax Act, the City is no longer allowed to "roll up" its property tax rate in years when growth on its existing tax base is less than inflation.

For the year ended June 30, 2004, the City's Headlee maximum property tax rate for its operating levy was 6.5948 mills even though City Charter would allow the City to levy 8.5 mills for operations. Because of changes made to the General Property Tax Act in 1994, this reduction in millage rate is permanent absent a Headlee override vote. Additionally, as demonstrated by a recent study published by the Michigan Municipal League (with the participation of the Michigan Townships Association and the Michigan Association of Counties), due to definitional changes made to the General Property Tax Act in 1994, the treatment of uncapped values or the "pop up" amount when a property is transferred or sold (as growth on existing property subject to the Headlee rollback calculation), the downward pressure on millage rates will continue, particularly given the significant gap that now exists between taxable value and state equalized value.

Water and Sewer Fund Potential Revenue Enhancements

During our testing of the Water and Sewer Fund in the current year, we noted a couple of potential opportunities to enhance the revenue of the fund. They included the following:

- We would recommend that procedures be put into place related to communications between the building department and the water and sewer department related to the issuance of certificates of occupancy (C of O). Assurance from the building department that a water meter has been installed in a new building should take place prior to the issuance of a C of O to prevent unmetered usage of water.
- Recently, the City's technology consultant was able to produce a report that detailed the meters that were being read as not having any activity, which in most instances likely equates to meters not functioning properly. We would encourage the City to generate this report on a quarterly basis to facilitate early identification of problematic meters and potential unmetered usage of water.

Internal Control Items

During our testing, the following items were noted related to the City's accounting and internal control systems and may require attention, including the following:

Water and Sewer

- On a daily basis, the treasurer's office collects on water and sewer bills. An itemized listing of these collections is forwarded to the water and sewer department for manual input into the individual customer account balance software. Given that the input is manual, the possibility of human error exists. To minimize this risk, we would recommend that after manual input of these receipt batches, the water and sewer personnel generate a report from the software summarizing the related input. This report should be forwarded to someone independent from the water and sewer department and compared in total to the receipt summary submitted to the water and sewer department from the treasurer's office. In addition, this review should be evidenced by signoff on a copy of the input report.
- Currently, only significant manual adjustments to the water and sewer billing accounts receivable subledger are reviewed by management. We would suggest that someone outside of the water and sewer department review a detailed listing of manual adjustments on a monthly basis. In addition, this review should be evidenced by signoff on a copy of the adjustments report.

Cash

- As part of our audit testing in the current year, management requested that we review the internal control procedures related to the Young Recreation Center cash collections. While in the current year the facility began using a cash register in an effort to help tighten controls, there is still room for improvement. We have reviewed the system currently in place and have issued a memo to the comptroller related to our observations and potential improvements we believe could be made to the system.
- The City currently does a commendable job of reconciling its bank statements to the general ledger on a timely basis each month. We believe it would improve internal controls to extend the reconciliation process to include investments held at the end of each month. We would recommend that the treasurer's office prepare a list of outstanding investments as of each month (noting type of security, creditor, custodian, and interest rate) and deliver this to the comptroller's office for reconciliation to the general ledger.

To the Honorable Mayor and
Members of the City Council
City of Dearborn Heights

5

November 29, 2004

- Related to rescue run collections collected by a third party, payments are made out to the City of Dearborn Heights. This third party has the authority to endorse the checks and deposit them into the City's account by using a deposit ticket received from the treasurer's office. It would be possible for this third party to endorse checks and cash them without depositing them. We would suggest that procedures related to collections on services by third parties be reviewed by the City.

Construction Projects

- Currently, subsequent to paying invoices to the construction manager related to the construction of the new libraries, the City receives waivers from the related subcontractors. We would encourage the City to reconcile subcontractor waivers to the related contract billings to ensure that the construction manager is receiving the appropriate fees under the contract.

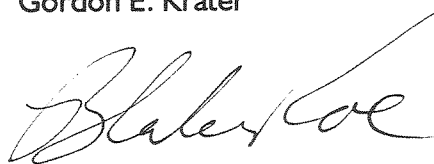
We would like to thank the City staff again this year for their preparedness, cooperation, and assistance they provided during the audit. If you have any questions, or would like to discuss these items further, please feel free to contact us at your convenience.

Yours truly,

Plante & Moran, PLLC



Gordon E. Krater



Blake M. Roe